



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

119608

PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

B-207859

September 28, 1982

The Honorable Robert J. Lagomarsino  
House of Representatives



119608

Dear Mr. Lagomarsino:

Subject: Contracting for Support Services and Competitive  
Procurement Practices at the Navy's Pacific  
Missile Test Center, Point Mugu, California  
(GAO/PLRD-82-126)

Your January 6, 1982, letter asked us to investigate on behalf of Federal employee union representatives, contracting practices at the Pacific Missile Test Center (PMTC), Point Mugu, California. It was alleged that the Navy had not complied with Office of Management and Budget (OMB) Circular A-76 by failing to make cost comparisons to determine whether performance of functions by contract or by Government employees was more economical. It was further alleged that support service contracts had been awarded without following competitive bid procedures.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine (1) whether cost comparison requirements of OMB Circular A-76 had been met in contracting for selected support services and (2) whether competitive procurement procedures had been followed in awarding selected support service contracts. We also reviewed the policies and procedures in OMB Circular A-76.

We made our review essentially at PMTC. We reviewed contracts and management file documents, contract work statements, organization functional statements, and acquisition requests in support of proposed contract actions. We also analyzed workload and personnel staffing statistics and related data for those functions under review. In addition, we reviewed Navy and installation policies and procedures relating to contracting out and competitive bid procedures. Discussions were held with Navy contracting, operations, and management officials. We also visited the facilities where the support service functions were performed.

We made our review in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

023574

(942123)

FINDINGS AND CONCLUSIONS

Following is a summary of our findings and conclusions, which are discussed in detail in the enclosure.

Regarding the alleged noncompliance with OMB Circular A-76, we found that:

--The data processing service center computer operation function, previously performed by Government employees had been converted to a contractor operation. Since the service center was a new organization--the computer operation function was not--PMTC considered this a new start not requiring a cost comparison. However, OMB Circular A-76 defines a "conversion" as a transfer of work from a Government commercial or industrial activity to contract. We believe, therefore, that this was a conversion and the required cost comparison should have been made, as required for operations whose annual costs are \$100,000 or more. Since the cost comparison was not done, there was no assurance that the conversion to contract was the least costly method of accomplishing this function. PMTC did not comply with the circular.

--Additional data processing service center functions were scheduled for conversion to contractor performance on October 1, 1982, with the proposed award of a facilities management contract. Since annual operating costs exceed \$100,000, a cost comparison is required. Again, PMTC considers the tasks to be performed new requirements and has not made nor does it plan to make a cost comparison. In September 1982, we recommended that PMTC defer the award of the facilities management contract until the required cost comparison was performed. PMTC reiterated its position that the proposed contract was for new requirements and felt that it would not be in the best interest of the Government to defer the award since it was so late in the procurement cycle.

--Installation of new range display and target control systems had not involved a conversion to contractor performance; therefore, a cost comparison was not required.

Regarding the alleged award of support service contracts without following competitive bid procedures, we found that:

--Two of the five contracts had been awarded on the basis of adequate price competition.

--Two other contracts had been awarded on sole-source bases that were justified by the facts and circumstances of the cases.

--One contract awarded on a sole-source basis was questionable since (1) PMTC had not assessed in-house capability to do the work and (2) no effort had been made to identify other qualified sources.

--Three of the five contracts, however, had been extended beyond original completion dates. Because of inadequate advance procurement planning, competitive solicitations were not made for followon contracts. Therefore, the benefits of price competition were not realized.

PMTC recently established a procedure to insure compliance with OMB Circular A-76. A procedure was also established to preclude extensions of contract periods. Effective implementation of these procedures could overcome recurrences of these problems.

As instructed by your office, we did not request written agency comments on this report. However, our findings were discussed with Headquarters Navy officials, as well as PMTC and Navy contracting officials. Their comments were considered in preparing this report.

#### RECOMMENDATIONS

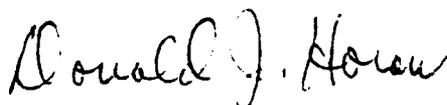
We are recommending that the Commander, PMTC, defer the award of the data processing service center facilities management contract, scheduled for October 1, 1982, until the required cost comparison is made in accordance with OMB Circular A-76.

We are also recommending that the Commander, PMTC, monitor recently promulgated procedures designed to (1) insure compliance with OMB Circular A-76 and (2) eliminate extensions of contract performance periods to see that they are effectively implemented.

- - - -

Copies of this report are being sent to the Secretaries of Defense and the Navy; the Director, Office of Management and Budget; the Administrator, Office of Federal Procurement Policy; the Chairmen, Senate and House Committees on Appropriations and on Armed Services, Senate Committee on Governmental Affairs, and House Committee on Government Operations. We will also make copies available to others upon request.

Sincerely yours,



Donald J. Horan  
Director

Enclosure

CONTRACTING FOR SUPPORT SERVICES AND COMPETITIVE  
PROCUREMENT PROCEDURES AT THE NAVY'S PACIFIC MISSILE  
TEST CENTER, POINT MUGU, CALIFORNIA

BACKGROUND

Office of Management and Budget (OMB) Circular A-76 establishes the policies and procedures used to determine whether needed commercial or industrial work should be done by contract or with Government employees. The circular requires that contract costs and in-house costs be compared in deciding how the work will be done for those activities which are not required to be performed by the Government and which cost \$100,000 or more annually.

COMPLIANCE WITH OMB CIRCULAR A-76

Data processing service center computer operation was converted to contract without a required cost comparison

PMTC contracted for the data processing computer operations function which was previously performed in-house by Government employees. Since a new organization was established, PMTC considered this a new start not requiring a cost comparison. We believe, however, that this action constituted a conversion as defined in OMB Circular A-76. Accordingly, a cost comparison should have been made before the function was contracted out, as required by the circular. Without the cost comparison, there was no assurance that the least costly method of performance was selected.

OMB Circular A-76 defines a "new start" as a newly established Government commercial or industrial activity. The circular states that a "conversion" is the transfer of work from a Government commercial or industrial activity to performance by a private commercial source under contract. The circular further states that when performance by a contractor is feasible, a rigorous comparison of contract costs with in-house costs should be made to decide whether the work will be performed in-house or by contract.

In February 1978, PMTC completed an Automated Data System Development Plan for the establishment of a Data Processing Service Center (DPSC) to support the requirements of PMTC and the Naval Ship Weapon Systems Engineering Station (NSWSES), Port Hueneme. Existing data processing support in areas of management,

logistics, and engineering being provided by PMTC and the Facilities Systems Office (FACSO), Port Hueneme, were considered inadequate to meet PMTC and NSWSES requirements. One alternative presented in the plan was to establish a contractor-operated facility at PMTC with data processing operations and system software support provided under contract and management and application software support provided by Government employees. On March 20, 1980, the Assistant Secretary of the Navy (Financial Management) approved the concept of a Government-leased/contractor-operated DPSC at PMTC.

A contract (order ES02 to basic ordering agreement DAEAL8-76-A-0001) for \$300,000 was awarded to Sperry Univac, on March 13, 1981, for operation of DPSC using a Univac 1100/42 computer system. PMTC did not perform the cost comparison required by OMB Circular A-76 to determine whether it was less costly to contract or perform the service in house because it considered this a new start rather than a conversion. The contractor services were for a 9-month period ending December 9, 1981, with a 3-month option period through March 9, 1982. The option was exercised, and the contract was subsequently extended another 7 months through September 30, 1982. Contract costs for the option and extension periods were \$198,000.

While DPSC is a new organization, the activities are not new. The computer programs and data processing systems on line at DPSC have been transferred from data processing departments at PMTC and FACSO. These programs and systems relate to information such as range scheduling, travel obligations reports, outstanding accounts payable, and various training activities. At the time of our review, plans were to transfer additional work from NSWSES. This includes such items as contracts data base, plant property and account system, and Navy Industrial/Financial Management data. These functions were essentially done with Government employees in the respective data processing departments.

The managers of the data processing departments said the transfer of data processing programs and systems from in-house to contractor performance would not involve adverse personnel actions. At PMTC, four Government computer operators were transferred to scientific data processing operations and three other operators were scheduled for future transfer. At NSWSES, Government employees and contractor personnel will be retained for processing engineering computer programs. At FACSO, Government employees will continue to perform the same data processing functions since the transferred programs had no impact on personnel assignments.

Additional data processing functions  
are scheduled for conversion  
without cost comparison

A request for proposal (N00123-82-R-0178) was issued December 10, 1981, for managing the DPSC facilities. A contract is scheduled for award on October 1, 1982. Again, PMTC considered the tasks to

be performed as new requirements and did not make a cost comparison. The statement of work in the request for proposal encompasses the work being done under the Sperry Univac contract. In addition, the statement of work provides for quality control, production control, scheduling, telecommunications planning and network development, systems software management, and development and maintenance. Except for telecommunications planning and network development, all the functions are currently performed by PMTC Government employees.

The PMTC data processing department where the scheduling and quality and production control functions are performed considers two of the four Government employees excess to its needs. The department has recently requested assistance from the Civilian Personnel Office in placing these employees.

Prior to establishment of the DPSC, Government employees at PMTC designed, developed, tested, and maintained management information systems, applications, and programs. These functions are also in the proposed facilities management contract work statement. With the award of this contract, the data processing responsibilities of 17 Government employees of DPSC will be revised to provide systems analysis and design, development, and maintenance of management data bases. A PMTC official told us that no DPSC Government employees would be adversely affected by the proposed facilities management contract.

Operation and maintenance of new range display and target control systems did not necessitate a cost comparison

PMTC recently assigned the responsibility for maintenance of the new Range Operations Display System (RODS) and Integrated Target Control System (ITCS) to the Computer Sciences Corporation (contract N00123-79-C-0163). The RODS and ITCS display operational data and target vehicle information and are intended to replace analog plotting boards and target display equipment.

Government employees will operate the new displays during range tests and will continue to operate the plotting boards and target display equipment. The contractor will maintain the RODS and ITCS computers, as has been the practice with other real time data handling systems at PMTC.

Since the contractor has not assumed functions being performed by Government employees, no conversion took place. Therefore, the cost comparison requirement of OMB Circular A-76 was not applicable.

New control procedure established  
for planned acquisitions of services

On March 29, 1982, PMTC established a procedure for review of planned acquisitions of services exceeding \$100,000. The purpose of the procedure is to insure compliance with OMB Circular A-76 and implementing Navy guidance.

It is too early to assess whether the procedure will assure effective compliance with the Government policy of performing commercial or industrial work through contract or by Government employees. Much depends on the attitude of PMTC management in recognizing appropriate circumstances for making comparative cost studies in formulating decisions on the performance of new, expanded, or existing functions at PMTC.

Navy comments and our evaluation

The Commander, PMTC, did not agree that the data processing function had been converted from in-house to contractor performance. He stated that the function was a new requirement since such an organizational structure had never existed at PMTC for performing the function and that under the provisions of Chief of Naval Operations instructions, contractor performance of a new requirement could be accomplished without a cost comparison.

PMTC officials stated that data processing functions previously performed by Government employees, such as scheduling and production and quality control, would eventually be eliminated when the batch-type computer programs were converted to the Univac 1100/42 computer system. In addition, they stated that the proposed facilities management contract workload involved system operational and maintenance support tasks which differed from the systems analysis and data base administration tasks assigned Government employees in the DPSC management organization. PMTC officials further stated that (1) data processing workload currently done under contract would be transferred to DPSC and (2) it was not feasible to operate DPSC with Government employees because Government salaries were not competitive with those in private industry for the skill levels needed for the Univac 1100/42 system.

We do not agree with the PMTC positions. OMB Circular A-76 defines a "new start" as a newly established Government commercial or industrial activity. Although DPSC did not previously exist at PMTC, the management, logistics, and engineering data processing functions did exist and were performed by Government employees before transfer to the contractor-operated DPSC. The circular defines a "conversion" as a transfer of work from a Government commercial or industrial activity to a private commercial source under contract. We believe, therefore, that contracting of these activities was a conversion requiring a cost study.

Regarding the elimination of manual data processing operations, such as scheduling and production and quality control functions, we recognize that this can occur with the advent of new technology. In the interim, however, these functions will be performed by contractor personnel as evidenced in a recent PMTC staffing study citing the need for six contractor personnel. Also, while the proposed facilities management contract tasks may differ from those to be performed by Government employees in the DPSC management organization, these are the same tasks previously performed by PMTC Government employees.

We agree with PMTC that the planned transfer to DPSC of data processing workload currently done under contract would not constitute a conversion. However, we believe that when a consolidation of data processing operations is contemplated comprising workload formerly done by Government employees and contractor personnel, the entire function should be subjected to a cost comparison. At the time of our review, all data processing functions transferred to the contractor-operated DPSC had been performed previously by Government employees. As concerns the competitiveness of Government salaries, we found no documentation that PMTC had made a study of the labor market or compensation levels needed for an in-house DPSC operation. Apparently serious consideration was not given to the possibility of in-house operation of DPSC when the decision was made to contract the function.

In September 1982, we recommended to the officer who was acting Commander, PMTC, when we discussed our findings, that PMTC defer the award of the facilities management contract scheduled for October 1, 1982, until the required cost comparison had been performed. He reiterated PMTC's position that the proposed contract was for new requirements and felt that it would not be in the best interest of the Government to defer the award since it was so late in the procurement cycle. We believe that the deferment of the proposed contract award until a cost comparison is performed would cause minimal disruption. If necessary, however, the contract for operation of DPSC could be extended until the cost comparison was completed.

Headquarters Navy officials also did not agree that a conversion had taken place. They stated that (1) no Government employees had been adversely affected by the contracting-out decision and (2) DPSC was a new requirement and, therefore, not a Government commercial or industrial activity subject to the cost comparison requirement.

We do not agree with the Headquarters Navy position that contracting out was justified because no Government employees were adversely affected. The Navy's position would permit contracting without a cost comparison whenever staffing vacancies

were created by employee transfers or additional workload requirements were imposed on an organization. Further, according to OMB Circular A-76, cost generally should be the determinant in deciding whether to perform an activity in-house or to contract rather than the effect on Government employees. Without a cost comparison, there is no assurance that required goods and services are being acquired in the most economical manner.

As stated earlier, the creation of a new organization, with expanded workload responsibilities; new, more capable computer equipment; and new modes of operation does not, in our opinion, automatically justify conversion to contractor operation without a cost comparison. We believe such practices open the door to unrestricted contracting when changes in organizational responsibilities, workload requirements, and new technology take place.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

The transfer of functions being performed by Government employees to a new organization operated under contract is a conversion within the meaning set out in OMB Circular A-76. We believe that to insure that needed services will be obtained in the most economical manner, PMTC needs to perform a cost comparison as required by OMB Circular A-76.

Effective implementation of the procedures recently issued by PMTC could overcome recurrences of the problems discussed above. We believe, therefore, that periodic reviews should be made to insure that the procedure is being followed.

### Recommendation

We recommend that the Commander, PMTC; defer the award of the data processing service center facilities management contract scheduled for October 1, 1982, until the required cost comparison is made in accordance with OMB Circular A-76.

We further recommend that the Commander, PMTC, monitor the recently promulgated procedure designed to insure compliance with OMB Circular A-76 to see that it is effectively implemented.

## COMPETITIVE BID PROCEDURES

Of the five support service contracts reviewed, two were awarded under competitive procedures, two were awarded on sole-source bases that were justified, and one contract was awarded on a sole-source basis that was questionable. Three of the

five contracts, however, were extended beyond their original completion dates. Since there were no competitive solicitations for followon contracts because of inadequate planning, the benefits of price competition were not realized.

Support service contracts  
were awarded on the basis  
of adequate price competition

A contract (N00123-76-C-0029) was competitively awarded in 1976 to Boeing Computer Services, Inc., for engineering support and technical documentation services. In addition, a contract (N00123-79-C-0163) was competitively awarded in 1979 to Computer Sciences Corporation for data reduction, collection, and related services. No changes were made to the contract work statements during the performance periods. We believe that appropriate competitive procurement procedures were used in awarding these contracts.

Support service contracts  
were also awarded without  
competitive bid procedures

Two of three support service contracts were awarded on sole-source bases that were adequately justified. The third sole-source award, however, was questionable.

The contract (Order ES02 to basic ordering agreement DAEA18-76-A-0001) for the DPSC computer operation was awarded to Sperry Univac on a sole-source basis as Sperry was considered uniquely qualified to operate DPSC because of specialized knowledge of the computer system and software. The Univac 1100/42 was identical to those used at other Navy regional data processing centers, and Sperry had provided operator/instructor support at these centers in past years. The noncompetitive award was intended for the initial startup and early operation until a competitive contract could be awarded. It appears that the sole-source award was justified. However, as indicated earlier, a cost comparison should have been made in accordance with OMB Circular A-76 after the initial startup and early operational phase was completed.

A contract (N00123-81-C-0914) for the telecommunications study was awarded to the Small Business Administration under section 8(a) of the Small Business Act. The effort was in turn subcontracted to Inter Systems, Inc. The sole-source award was authorized under current law and regulation. Contract costs totaled about \$1.2 million.

A contract (N00123-81-C-0970) was awarded to Sage Institute, Inc., on a sole-source basis for an organizational assessment study of the DPSC management organization. Cost of this contract was \$48,500. The sole-source justification of the requiring

activity stated that the contractor was in business solely to assist public and private organizations in pinpointing and minimizing current and potential organizational behavioral and planning problems. The justification further stated that the contractor had proprietary assessment techniques to insure effective results and was the only known firm that used computer software to make organizational assessments.

We question the sole-source justification because (1) there was no indication that an effort was made to identify other qualified firms for this requirement and (2) no assessment was made of the capability to accomplish the requirements with PMTC personnel.

Contract performance periods were extended without price competition

Three of five support service contracts were extended beyond the original completion dates. Since there were no competitive solicitations for followon contracts, benefits from price competition were not obtained. It appears that better advance procurement planning would have minimized the degree to which contract performance periods were extended noncompetitively.

The contract with Boeing Computer Services was awarded effective April 1, 1976, for a 1-year period with two 1-year options. However, the contract was extended seven times over a 36-month period (April 1, 1979-March 31, 1982) beyond the completion date of the last option period. Contract costs, including the extensions, were \$5.4 million. A competitively awarded contract has since been issued which was effective April 1, 1982. The competitive procurement package was not completed by PMTC and sent to the Naval Regional Contracting Center until December 1980, or 20 months after the end of the last option period. Additional delays were experienced at the Regional Contracting Center, thereby necessitating further extensions from January 1, 1981, through March 31, 1982.

The contract with Computer Sciences Corporation was awarded effective March 1, 1979, for a 3-year period. The performance period was extended 4 months through June 30, 1982. PMTC recently requested the contract be extended an additional 3 months through September 30, 1982. The extensions were approved because of anticipated delays in the award of the competitive followon contract. Costs for the contract, including the extension periods, totaled \$9.1 million.

The competitive procurement package was submitted to the Regional Contracting Center in August 1981 in sufficient time for contract award. However, the Regional Contracting Center could not award the contract in a timely manner because of turnover of experienced contracting personnel.

The contract with Sperry Univac was awarded on March 13, 1981, for a 9-month period ended December 9, 1981, with a 3-month option. The contract was extended about 7 months to September 30, 1982. The competitive procurement package for a followon contract was submitted to the Regional Contracting Center in November 1981. This did not provide sufficient time for contract award by March 10, 1982.

New reporting system established to preclude sole-source contract extensions

On July 8, 1982, the Area Contracting Division at PMTC established a reporting procedure to preclude the necessity of requesting contract extensions. The report essentially provides target dates for the receipt of purchase requests to facilitate timely awarding of contracts.

PMTC comments

PMTC agreed with our assessment of sole-source contract awards and stated that the reporting procedure mentioned above should expedite the processing of major awards and avoid contract extensions.

CONCLUSION AND RECOMMENDATION

Effective implementation of the new reporting procedure could preclude contract extensions. We therefore recommend that the Commander, PMTC, monitor the new procedure to see that it is effectively implemented.